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SUBJECT: MOSCOW GOVERNMENT COPES WITH THE GLOBAL ECONOMIC
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Classified By: M/C for Political Affairs Alice Wells; reasons 1.4(b/d).

[1](#)1. (C) Summary: According to Moscow city officials, the global economic crisis has not affected the average Muscovite to the same degree that it is impacting the capital's more affluent residents. In order to mitigate its effects and maintain a stable political climate in Moscow, the city government is devising and implementing new measures. Some seasoned political observers believe that Mayor Yuriy Luzhkov will use the current economic crisis to his advantage to maintain his political power. Yet signs of dissatisfaction with Luzhkov's leadership are apparent within the Moscow City Duma, according to Yabloko Party Leader and Moscow Duma Deputy Sergei Mitrokhin. Since city elections are not expected before spring of 2010, most observers anticipate little significant public political activity before then. Muscovites will likely slog through the economic crisis, like citizens of other regions, in a state of apathy. End Summary.

How Muscovites are Coping with the Economic Crisis

[1](#)2. (SBU) Acting Director of the Moscow city government's office of international relations Vladimir Lebedev told us January 14 that, despite growing indications of economic instability in other parts of Russia, the impact on average Muscovites has been minimal. For instance, new graduates entering the job market were until recently regularly receiving hiring bonuses since money was flowing so freely in Moscow. Prices for certain services, including utilities and public transportation, rose on January 1. These were implemented with salary increases for lower-end wage earners in Moscow to offset inflation, so the sting was not so severe. The city government will also increase pensions and minimum wage by at least 30% in 2009. On the other hand, Lebedev stated that it is the upper middle class and wealthy who have been most affected. Rumors that Luzhkov's wife, billionaire real estate developer Yelena Baturina, is seeking federal government assistance for her Inteko empire have caught Muscovites' attention.

[1](#)3. (SBU) Lebedev pointed with pride to Moscow's unemployment rate of 0.65 percent, noting that only 25,000-30,000 people were registered to receive unemployment compensation. Simultaneously, he stressed, there were 175,000 job vacancies in the city. According to Lebedev, the city government intends to target its financial intervention on small and medium-sized businesses, the construction industry, and some areas of industrial production, all of which are at risk in Moscow. He claimed that one million people, including illegal immigrants, work in construction or construction-related sectors in Moscow, most of whom depend on affordable and accessible credit. The health of the mortgage sector will further impact individual and business decision-making. There is speculation that in the near future, housing prices could drop by as much as 50% in Moscow. Lebedev predicted that by late spring, targeted measures will be needed to generate and support employment and growth in Moscow. Yabloko opposition leader and City Duma member Mitrokhin agreed that the economic crisis in

Moscow is not as severe as in smaller cities and rural communities, since Moscow has budget reserves and sources of revenue. In fact, Mitrokhin observed that the crisis may have positive consequences in that it could potentially stimulate economic and social reform.

How Politicians are Addressing the Economic Crisis

14. (SBU) Lebedev elaborated on the measures the Mayor's Office is taking to contain the economic downturn. He noted that some sources of Moscow's revenue, such as the collection of taxes and rental incomes, are reliable. In order to generate additional sources of income as a buffer against the economic crisis, the city government is cutting unnecessary spending. For instance, it has curbed promotions and cut travel for staff. Social programs, including health, education, housing, and the arts, account for 50% of Moscow's budget, but Lebedev asserted that the government will not make cuts in this sector. Rather, it will focus on supporting small and medium-sized businesses to help bolster the economy during turbulent times. In lieu of short-term revenue, the city is willing to subsidize rents and waive some forms of taxation in order to promote economic activity.

The government is also contributing to social stability by providing food security. It is subsidizing certain foodstuffs (milk products, bread, certain vegetables and meats) and ensuring that they are readily available. Finally, it, like the federal government, is providing guarantees and direct infusions of resources to some financial institutions in Moscow so that banks remain solvent. Luzhkov used his January 19 meeting with Prime Minister Putin to showcase the details of this economic plan for Moscow.

15. (SBU) Long rumored to be on his way out, Luzhkov has used the economic crisis to demonstrate that he can get things done, and to convince Putin that now is not the time for change. According to Alexander Machevsky, a White House aide with access to senior government political leaders, President Medvedev and Putin now see it in their interest to help Luzhkov maintain the necessary political legitimacy to stay in power. Machevsky asserted that, from Putin's perspective, Luzhkov is maintaining the social stability in Moscow during an unpredictable time. Lebedev asserted that, due to the unstable nature of the economic crisis, there will be no elections in Moscow earlier than mandated by law, i.e. the spring of 2010. He concurred that the timing is not favorable for Luzhkov to step down. Luzhkov is well-connected throughout both the city and national government, in part due to the wealth of his billionaire wife. Lebedev maintained that there is simply no one at the present time who could replace Luzhkov and keep Moscow functioning. While Ekho Moskvii Editor Aleksey Venediktov insisted to us that Luzhkov's days were numbered, Carnegie's Kremlinologist Lilya Shevtsova told us that decisions on the fate of Luzhkov, Tatarstan's Shamiyev, and Bashkortistan's Rakhimov have been postponed due to the crisis.

16. (SBU) Nevertheless, some signs of political dissatisfaction persist in the Moscow City Duma. Mitrokhin cited the absence of a free press willing to report on city corruption or to express views at all critical of the mayor, given fears over possible Luzhkov retribution. Luzhkov himself has had to more forcefully - and personally - defend his policies before meetings of the Duma. In a recent article published in the government newspaper Rossiskaya Gazeta, he outlined the steps his administration is taking to help average citizens, including ensuring credit for families who wish to purchase apartments. However, Mitrokhin echoed the sentiment that early elections are unlikely since they would require expenditure of limited administrative resources, something that would not sit well with voters. Thus, he conceded that Luzhkov would remain in power through the financial crisis and likely beyond.

Comment

17. (C) Since elections likely will not be held in Moscow before the spring of 2010 and they are a necessary precursor to the City Duma majority party suggesting a new mayor to the president in 2011, Luzhkov appears to be comfortably positioned to remain in power. Should Moscow's economy contract substantially, the city's apathy could morph into protests. However, in Moscow, neither federal nor city authorities will allow protests to get out of hand. Average Muscovites are focusing their time and energy on slogging through the difficult times and, while they might harbor some resentment toward national business or economic decision-makers, on the contrary, they seem willing to ignore the faults of city leaders like Luzhkov as long as they are seen as doing what they can to mitigate the worst effects of the downturn.

BEYRLE